



HOW TO BUDGET FOR A USED CAR



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Buying your own car is likely one of the most exciting purchases you'll make in your adult life, but you might not know exactly how to budget for the purchase. Thankfully, you have tons of options available to you to make the process easier, such as taking out a car loan. You might need some additional guidance along the way, though, to make sure that you're properly budgeting your hard-earned money.

When you take the right steps, and do your research properly, you'll be able to afford a fantastic car that you'll love for years to come. Our team has put together this guide to help you understand exactly how to budget for a used car, so you'll feel confident before you head to the dealership.



BENEFITS OF BUYING USED

Purchasing a pre-owned car can be financially beneficial since they can offer a greater value than their brand-new counterparts. It can also allow you to buy more car than you could normally afford if it were new. Thanks to advances in technology and engineering, cars are lasting much longer these days, making the used automobile all the more attractive.

Bang for Your Buck

Regardless of how large or small your budget may be, you'll undoubtedly be able to get more car when you buy used rather than new—even if you're buying a well-equipped luxury car that's just a year or two old. Pre-owned vehicles are not just for consumers on a tight budget; they're for anyone who's looking for a good deal and doesn't mind if the vehicle has a couple thousand miles on it already.

Less Depreciation

New cars tend to lose most of their value within the first few years of ownership. When you buy used, though, you're protected from that loss in value.

Sales Tax & Insurance

Taxes and car insurance come along with car ownership, so you'll simply have to account for these expenses when you budget for your car. However, the good news is that both taxes and insurance fees are typically much lower for a pre-owned vehicle than they would be for the exact same vehicle if it was brand-new.

Reliability

That's right: Sometimes a used car can actually be more reliable than a new car! When you opt for a well-known model, you'll have access to the reviews and experiences of hundreds of consumers who have owned the same car. Due to this, you'll be able to find out if the car has any common flaws. That way, you can steer clear of models that are known to have certain reoccurring problems, and get a car that's known to last for many years and hundreds of thousands of miles without an issue.



CALCULATE YOUR BUDGET

For most people, purchasing a car will mean taking out a loan, which is what we'll focus on here. If you can afford to pay cash up front for your vehicle, all you have to do is save up and write a check!

If you're budgeting for monthly loan payments, you'll begin by calculating your take-home pay: that's how much money you earn each month after taxes. As a general rule, your monthly payments shouldn't exceed 20% of this amount.

However, you may want to consider your other expenses before deciding that this is the exact amount you'll use as your budget. Other expenses include your rent or mortgage payment, or other existing loans that you're already paying off. Be realistic about what makes sense for you, and what you can comfortably afford to pay for your vehicle each month. Your goal could be 15%, or even 10%, of your take-home pay, and that's fine. You should also plan to pay a down payment of about 10% of the car's total price up front, so make sure you have enough money saved up for this payment.

CONSIDER ADDITIONAL EXPENSES

Don't forget that your total car expense is more than just the price of the vehicle, and that there are other fees and payments to consider before you set a final budget.

Registration Fees & Taxes

Sales taxes are much lower on used vehicles than on new ones, but they're still a small piece to add into your budget. The tax that you'll pay will vary widely depending upon where you purchase the vehicle. You'll also have to pay a registration fee to get the car registered in your name, which proves that you own the vehicle. Plus, it gets you a license plate and gives you the right to drive your car.

Car Insurance Payments

When you purchase a vehicle, you'll also need to get it insured. You'll pay your insurance company a monthly fee for coverage on your vehicle. You'll likely be covered for all types of problems that could happen to your car, such as damage caused by careless door-opening in the parking lot, collisions on the road, natural disasters, and more.

When you pay a monthly insurance fee, you give yourself the peace of mind that if something bad were to happen to your car, your insurance company will help you pay for its repair or replacement. You'll be able to get back on the road, and not find yourself deep in debt paying for repairs to damage that wasn't even your fault!

Fill the Gas Tank

The car needs fuel, or it'll just sit in your driveway looking pretty, never taking you where you need to go. Account for the cost of gas when you're determining your budget because it's a recurring and necessary cost for any gas-powered vehicle. Gas prices do tend to fluctuate, and the amount you'll spend will also depend on how often and how far you drive the car, and whether you do most of your driving in the city or on the highway.

INTEREST RATES & LOAN TERMS

Ok, so now you know how much you can afford to pay each month, but there's still more to consider when it comes to your car loan. Yes, you need your monthly payments to fit a certain budget, but you still need to decide on the length of your loan term and understand interest rates.

The Length of Your Loan

When you take out a loan to pay for a vehicle, you'll be paying the money back to the lender on a monthly basis for a certain length of time until you've paid off the full amount that you've been loaned. The term of the loan will partially determine the cost of the monthly payments—either you can pay more each month for a shorter amount of time, or you can have a lower monthly payment for a longer period of time. Most loan terms will be about three to six years in length, but the choice is entirely up to you and how you're comfortable paying.

Interest Payments

In addition, your lender will charge you an interest rate on top of the amount of the loan. This is how you pay the lender for the service they've provided you by lending you the money you need to buy a car. You'll be charged a percentage of the total amount of the loan, which you'll pay off incrementally as a part of your monthly payments.

Your interest rate is also dependent upon your credit score, so factors such as the existing loans you're paying, your credit card debt, and history of making payments on time will affect your interest rate. For a used vehicle, you'll likely pay interest of 3-5% of the total loan amount, but this can vary.



DRIVE IT HOME WITH YOU!

Now that you know the benefits of purchasing a used car, and you know exactly how to budget so you can afford it, it's time for you to begin your search. Consider your lifestyle, and what you'll need your car to do for you, whether that's comfortably seating seven people, getting great fuel efficiency, or having the ability to haul a heavy trailer. Check your local car dealerships for vehicles that match your list of needs, and that fall within your budget. When you find one, all you'll need to do is call the dealer to schedule a test drive. Soon, you'll be behind the wheel of your next car!